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IN THE

# Supreme Court of the United States

October Term, 1937

No. [REDACTED] 1

GENEAL TALKING PICTURES CORPORATION,  
*Petitioner*

vs.  
WESTERN ELECTRIC COMPANY, INC., ELECTRO-  
TECHNICAL RESEARCH PRODUCTS, INC., and  
AMERICAN TELEPHONE AND TELEGRAPH  
COMPANY.  
*Respondents*

BRIEF FOR PETITIONER ON REHEARING

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IN THE  
**Supreme Court of the United States**

October Term, 1937

No. 357

GENERAL TALKING PICTURES CORPORATION,  
*Petitioner,*

—vs.—

WESTERN ELECTRIC COMPANY, INC., ELE-  
CTRICAL RESEARCH PRODUCTS, INC., and  
AMERICAN TELEPHONE AND TELEGRAPH  
COMPANY,

*Respondents.*

**BRIEF FOR PETITIONER ON THE TWO QUESTIONS  
ON WHICH REHEARING WAS GRANTED.**

**Statement.**

This Court granted a writ of certiorari in this case (302 U. S. 674). The cause was argued and a majority opinion (per Mr. Justice BUTLER) was filed May 2nd, 1938, affirming the Circuit Court of Appeals below, Mr. Justice BLACK dissenting (304 U. S. 175). A rehearing was granted (304 U. S. —, 82 L. Ed. 1045) limited to the first two questions presented by the petition for writ of certiorari.

For the convenience of the Court petitioner files its present brief confined to the two questions on which the rehearing was granted.

### **The Facts. .**

1. Three suits were brought by respondents against petitioner in the District Court for the Southern District of New York to restrain infringement of twelve patents. Four of them were withdrawn at or prior to the trial. Six of the patents were found valid and infringed, and two were found invalid. The case here involves only the six patents which were held valid and infringed.

2. All the patents in suit are included in a patent pool to which respondents and the other large companies of the electrical industry, including Radio Corporation of America, General Electric Company and Westinghouse Electric and Manufacturing Company, contributed all of their respective relevant patent rights, which pool has become popularly known as "The Radio Trust" (Vol. III, pp. 1305-1413).

3. By the pooling arrangement Radio Corporation of America was vested with the sole authority to grant licenses under all the patents of the pool to manufacturers engaged in the manufacture and sale of apparatus embodying the inventions of the respective patents of the pool.

4. Under this authority Radio Corporation of America, with respondent, American Telephone and Telegraph Company joining as a co-licensor, granted to a number of apparatus manufacturers (Vol. I, pp. 332-335) licenses under all the patents in the pool,

"to manufacture \* \* \* and sell only for radio amateur reception, radio experimental reception, and radio broadcast reception \* \* \*"

(Vol. III, p. 1415).

5. One such manufacturer who acquired a license was the American Transformer Company which, under its license, manufactured and sold apparatus technically known as a vacuum tube amplifier (Vol. III, p. 1414 *et seq.*).

6. A vacuum tube amplifier is a standard piece of electrical equipment utilized for amplifying electric currents. It consists solely of the necessary electrical instrumentalities, including vacuum tubes, to which current is supplied to the "input" end, and from which the amplified current is obtained from the "output" end.

Obviously, this standard instrumentality can be used wherever electric current amplification is desired, and, therefore, for perhaps hundreds of purposes in as many different industries.

7. Pursuant to the requirement of paragraph 5 of the license agreement (Vol. III, p. 1418), the American Transformer Company attached to each amplifier it sold, a plate or label bearing the legend (Vol. II, p. 734)—

"License Notice—This apparatus is licensed only for radio, amateur, experimental and broadcast reception under the following patents of the Radio Corporation of America and associated companies."<sup>1</sup>

As above noted, the amplifier made and sold by the American Transformer Company can actually be used for any of the many purposes for which amplifiers are used, besides those recited in the foregoing "License Notice".

8. Petitioner, over a considerable period of time, and in the ordinary course of its business, purchased many hundreds of amplifiers from the American Transformer Company with this "License Notice" attached thereto, and

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<sup>1</sup> The patents in suit were included in the patents to which the "License Notice" applied.

proceeded to employ them in talking motion picture equipment, being engaged solely in the business of making and leasing such motion picture equipment (Vol. I, p. 65, fols. 193-194). Petitioner never made or sold any amplifiers (Vol. I, p. 387, fol. 1160).

9. The American Transformer Company, exercising its power of *sale* under the license, *sold* its amplifiers to petitioner (Stipulation, Vol. I, fol. 194), received its full selling price therefor, and regularly paid its royalties to Radio Corporation of America under its license agreement with that company, reporting to that company the sales of the amplifiers made to petitioner (Vol. III, pp. 1568-1614). Petitioner was well known to Radio Corporation of America, and to respondents; they also knew that petitioner's business was confined exclusively to the making and leasing of talking motion picture equipment (Vol. I, pp. 65, 371, 379, 469, 476, 507).

10. The present suit was instituted charging infringement of the patents in suit under which the amplifiers were manufactured and sold under license by American Transformer Company, because the *use* to which petitioner put the amplifiers was outside the alleged "licensed" use specified in the "License Notice" attached to the apparatus. In other words, although the amplifiers had been bought and paid for, with *title* passing thereto, and although tribute to the patents had been paid by the selling licensee, the patent owner, by a "notice" attached to the apparatus, sought to retain control over the *use* to which the amplifiers were subsequently put by the purchaser.

11. For more than a year after the present suit was begun, Radio Corporation of America retained the royalties paid by its licensee, the American Transformer Com-



pany, on the amplifiers sold by the licensee to petitioner, with conceded full knowledge of the regularly continued sales of the amplifiers to petitioner by the American Transformer Company throughout such period, and of the use to which petitioner put them (Vol. II, p. 1216; Vol. III, pp. 1568-1614).

12. Though this suit was commenced in September, 1929, and the license of American Transformer Company to make and sell these amplifiers did not expire until August, 1931 (Vol. III, p. 1421), the respondents never protested to the licensee, the license was never cancelled nor was the American Transformer Company ever sued for any alleged breach thereof. Indeed, the American Transformer Company was permitted to continue to make and sell the amplifiers to petitioner, without interference, until the above expiration date of its license (Vol. I, p. 344, fol. 1031; p. 349, fol. 1047).

### **The Two Questions on which the Rehearing was Granted.**

The two questions on which rehearing has been granted are as follows:

1. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor?

2. Can a patent owner, by means of the patent, merely by a "license notice" attached to a device made under the patent and sold in the ordinary channels of trade by the patentee or by his licensee to make and sell, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device?



## Substance of the Opinion of the Court of Appeals Below.

The Court of Appeals for the Second Circuit answered the two questions in the affirmative, disregarding the numerous decisions of this Court to the contrary<sup>3</sup> with the statement that the holdings of those cases are not necessarily controlling on the point here in issue (91 Fed. (2) 922 at p. 928; Vol. III, p. 1723). The pertinent statements of this Court in the *Boston Store* case (246 U. S. 8) and in the *General Electric* case (272 U. S. 476) that patented articles once sold, are put beyond the confines of the patent law, were characterized as "obiter",<sup>4</sup> and the Court of Appeals concluded its opinion on this subject with the statement:<sup>4</sup>

"This circuit recognized that the patentee may extend his monopoly beyond a sale by a licensee."

## Summary of Argument.

The facts and law applicable to the two questions to which the rehearing is confined will be the first two points discussed, whereby it will be established that both of these questions should be answered by this Court in the negative.

Thereafter, in the order named, and as separate points, there will be pointed out (Point III) the error of the Court of Appeals below in its treatment of the issues involved; (Point IV) the fallacy of respondent's contentions in the case; and (Point V) the error of the prior majority opinion of this Court in the present case.

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<sup>3</sup> *Motion Pictures Patents Co. v. Universal Film Co.*, 243 U. S. 502; *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store v. American Graphophone*, 246 U. S. 8; *United States v. General Electric Co.*, 272 U. S. 476.

<sup>4</sup> 91 Fed. (2) 922, 928; Vol. III, p. 1724.

<sup>4</sup> 91 Fed. (2) 922, 929; Vol. III, p. 1724.

### Argument.

This suit is concerned with talking motion picture equipment, and therefore involves the same industry which this Court in the *Motion Picture Patents* case<sup>5</sup> said

"must be recognized as an important element in the amusement life of the nation".

Just as in the Government suit in that case,<sup>6</sup> license agreements of the very type entered into between respondents and the American Transformer Company, and based also on a pooling of patents relating to motion picture apparatus, were held illegal and violative of the anti-trust laws, these respondents, too, with respect to the same industry and the same equipment, have already been found to have established and maintained an illegal monopoly in violation of the same laws.<sup>7</sup>

In consequence, both as to subject matter and as to the principles of law involved, the case presents matters of vital public importance.<sup>8</sup>

<sup>5</sup> *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 519.

<sup>6</sup> *United States v. Motion Picture Patents Co.*, 225 Fed. 800, appeal dismissed 247 U. S. 524; cited with approval in *Standard Oil Co. v. United States*, 283 U. S. 163, 174.

<sup>7</sup> *Stanley Company of America, Inc. v. American Tel. & Tel. Co., et al.*; *General Talking Pictures Corporation v. American Tel. & Tel. Co., et al.*; *Duovac Radio Corporation v. American Tel. & Tel. Co., et al.*, preliminary injunction granted 4 Fed. Supp. 80; on final hearing 18 Fed. Supp. 650. The action in the case at bar was not brought to trial until after the preliminary injunction had been granted against respondents in that anti-trust suit.

<sup>8</sup> Patent pools offer no avenue of escape from the prohibitions of the anti-trust laws, and if beyond the scope of the patent law, give sufficient ground for this Court of its own motion, the entire record being before it on certiorari (*Story Parchment Co. v. Paterson*, 282 U. S. 555, 567), to refuse to lend aid to the claims of any patentee arising out of such or other inequitable situations (*Oscanyon v. Ames Co.*, 103 U. S. 261, 267; *Continental Wall Paper Co. v. Vaught & Sons Co.*, 212 U. S. 227, 262; *United States v. American Tobacco Co.*, 221 U. S. 106, 181; *Keystone Driller Co. v. General Excavating Co.*, 290 U. S. 240, 245.

The suit is an attempt, by means of patents, to restrict the use of a standard article of commerce made and sold thereunder by a licensee under the patents, valid title to which article concededly has passed to the purchaser.

There is no question of contract or general law in the case. Nor, in so far as the patent law is concerned, is the attempted restriction one which in any sense is inherent to the structure of the article. The amplifiers sold by American Transformer Company could have been used for amplifying current in a railway signaling system, in a loud speaker system in an auditorium, for electrically recording phonograph records or the electrical reproduction thereof, in electro-medical laboratories, in power plants—in fact, in any industry where amplification of electric current is desired.

In essence, therefore, neither the uses of which the amplifier was capable, nor the purported restricted use to which the license notice sought to confine it, were dependent upon the particular construction or arrangement of the amplifier made and sold.

This controversy, concerned as it is exclusively with the rights of *purchasers* of patented articles, and not with the relations between *patentees and their licensees*, presents then but one question,—the validity *under the patent law* of the attempted use restriction here.

Respondents assert their power under the patent law to parcel out the single monopoly of their patents amongst purchasers of articles made and sold thereunder so as to create an unlimited number of sub-monopolies, one for each possible use of the amplifier. Of course, this cannot be lawfully done. Long ago, in a case in which the facts in this respect, at least, were like those here presented (*Washing Machine Co. v. Earle*, 29 Fed. Cas. 17219, p. 332), the

Circuit Court pointed out the impropriety and invalidity of any such attempt. The Court said (p. 334):

"Goodyear, by virtue of his patent, might have manufactured it (vulcanized rubber) all himself, and sold it for such price as he could get; but his patent gives him no power to control the use which persons who purchase may make of it. Vulcanized rubber may be applied to a thousand purposes, from a tube to a steam engine, but this patent gives no power to the patentee to parcel out his one monopoly into a thousand sub-monopolies." (Matter in parenthesis ours.)<sup>9</sup>

The decisions of this Court leave no room for doubt on this primary question. In a continuous line of authorities, unbroken except for the subsequently overruled *Dick* case,<sup>10</sup> and culminating in the *Boston Store* and first *Shoe Machinery* cases,<sup>11</sup> this Court established, restated and applied the rule that the sale of a patented article by the patentee or one having the power of sale, *exhausts the monopoly conferred by the statute and forever frees that article from that monopoly.*

Now, however, this Court, having before it in the case at bar what is perhaps the last or only remaining attempted restriction, namely the *manner or purpose* of use of the patented article sold, if its present decision remains unaltered, will sanction such restrictions on patented articles after their sale. Thus, though under those prior decisions no restrictions may be placed by a patentee on an article sold under the patent with respect to its *place* of use, its *time* of use, the *materials* used with it, or its *resale price*, the patentee may now control its *manner or purpose* of use throughout its useful life.

<sup>9</sup> Italics in this brief ours unless otherwise stated.

<sup>10</sup> 224 U. S. 1.

<sup>11</sup> *Boston Store v. American Graphophone Co.*, 246 U. S. 8, 25; *United States v. United Shoe Machinery Co.*, 247 U. S. 32, 58.



In reaching that decision the Court has apparently overlooked the fact that there is no distinction in principle between any of these restrictions; and this is emphasized by the failure of the Court to distinguish the restriction here attempted, in principle, or in law, from the other restrictions which the Court has consistently invalidated.

In consequence, the two questions presented in this cause on rehearing go squarely to the invalidity of the attempted restriction which respondents, by means of their patents, seek to impose upon the use to which petitioner may put the amplifiers it has purchased from a manufacturer licensed to make and sell them.

### POINT I.

**The owner of a patent cannot, by means of the patent, restrict the use made of a device manufactured under the patent after the device has passed into the hands of a purchaser in the ordinary channels of trade and full consideration paid therefor.**

The Court of Appeals for the Second Circuit expressly held (91 Fed. (2) 922, 929; Vol. III, p. 1724):

“ . . . the patentee may extend his monopoly beyond a sale by a licensee.”

Thus, its decision is to the effect that a patentee may, by means of the patent, maintain a control over the patented article after it has been bought and paid for and tribute to the patents paid by the selling licensee, and hold the purchaser as an infringer if the article is used other than as prescribed by a mere “notice” attached to the article when sold. If this decision is sound, the owner of a patent for



an ordinary pocket lighter (sold across the counter in any retail cigar store) can attach a notice thereto that the lighter is licensed for use only for lighting cigarettes, and successfully maintain a suit for infringement against the purchaser if he uses it for lighting cigars. The absurdity of the logical and practical consequences of the decision in the case at bar will thus be seen.

To proceed a step further, then, the ruling by the Court of Appeals above quoted would in effect make of the patent law the "perfect instrument of favoritism and oppression" (*Motion Picture Patents* case, 243 U. S. 502, 515). In evolving and applying, for almost one hundred years, a doctrine precisely to the contrary of that expressed by the Court of Appeals, and holding that a sale exhausts the monopoly of the patent owner as to the particular article involved, this Court, following *Kendall v. Winsor*, 21 How. 322, has invariably interpreted the patent law so as to consider "the benefit to the public or community at large . . ." as "the primary object in granting and securing that monopoly"; rather than "the promotion of private fortunes" (*Motion Picture Patents* case 243 U. S. 502, 511, 519).

**A. Outline of the progressive establishment of the rule by this Court that the sale of a patented article by the patent owner or by a licensee having a power of sale, removes the article from the patent monopoly.**

(1) This principle was first expressed and applied so as to give a right of use unlimited in point of time, to one who had purchased a patented article from a person whose patent rights, either as owner or territorial assignee, were expressly limited to the original term of the patent. In those

cases, therefore, the holder of the extended term was held to have no rights with respect to the article so purchased.<sup>12</sup>

(2) The rule was thereupon extended to cases involving purchases of patented articles from territorial assignees who themselves had no right to make, sell or use outside the territory to which they were restricted. It was there held (a) that the purchasers were not bound under the patent law by the territorial restrictions of their vendors, and could use the articles elsewhere;<sup>13</sup> (b) that such vendors were not chargeable with infringement for deliberately selling for use in other territory;<sup>14</sup> and (c) that dealers who purchased such patented articles from territorially limited vendors, could sell or use them elsewhere as well, free from the monopoly of the patent.<sup>15</sup> In each of the cases it was held that *though all of the parties concerned had full knowledge of the vendor's restricted rights*, the purchasers of the patented articles nevertheless took free of all restrictions under the patents.

(3) Thereupon the attempt by patentees to retain control over patented articles after their sale, by the device of express restrictions in the guise of "license notices" or special agreements with the vendor, intended to enable the patentee to control the resale prices<sup>16</sup> or the use of those articles by the purchaser,<sup>17</sup> met with a like fate (See Point

<sup>12</sup> *Wilson v. Rousseau*, 4 How. 646; *Simpson v. Wilson*, 4 How. 709; *Bloomer v. McQuewan*, 14 How. 539; *Bloomer v. Millinger*, 1 Wall. 340.

<sup>13</sup> *Adams v. Burke*, 84 U. S. (17 Wall.) 453.

<sup>14</sup> *Hobbie v. Jennison*, 149 U. S. 355.

<sup>15</sup> *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659.

<sup>16</sup> *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store v. American Graphophone Co.*, 246 U. S. 8.

<sup>17</sup> *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, overruling *Henry v. A. B. Dick Co.*, 224 U. S. 1.

II). In each, as this Court stated in the *Boston Store* case, the reason for the decision was the simple but fundamental ground that, title to the patented article having passed, the monopoly of the patent law cannot "be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach".<sup>18</sup>

**B. Analysis of cases in which the rule was considered or applied.**

From the summary just concluded, it is evident that every attempted restriction on a patented device after it has been sold, by means of the patent under which it was made, has been invalidated by this Court on the ground that a sale exhausts the monopoly of the patent owner as to the particular article involved.

**1. Attempted Restrictions on Time of Use.**

Thus, in *Wilson v. Rousseau*, 4 How. 646, and *Simpson v. Wilson*, 4 How. 709 (1846), this Court held that one who purchased a patented article from a patent owner during the original term of the patent, continued to have the right to use it beyond any limitation in time, though the rights of an assignee of the original patent itself were held to have expired with the term, as against the claims of one who had obtained an extension of the patent term under the then-existing law. These cases lay the foundation for the rule that the sale of a patented chattel exhausts the patent rights of the seller.

This rule was redefined and again applied six years later in *Bloomer v. McQuewan*, 14 How. 539 (1852),—another case dealing with attempted restriction on the time of use. It was there held that the purchaser of a patented

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<sup>18</sup> 246 U. S. 8, 26.

article during the period to which the patent was first limited, was entitled to continue to use it during the extended term, though the right of his vendor,—a territorial assignee—in the patent itself, was confined to the original term. This Court distinguished between the grant of a patent right such as a *license*, on the one hand, and the *sale* of an article made under that right, on the other. Chief Justice TANEY, who wrote the prevailing opinion in this and the earlier *Wilson* cases, *supra*, stated this distinction to be “a plain one”, and held (p. 549):

“ \* \* \* the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee.

“ \* \* \* And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.”

## 2. *Attempted Restrictions on Place of Use.*

The problem was presented anew in three cases between 1873 and 1895, but this time from the viewpoint of attempted restrictions on the *place of use* of patented articles after sale. In each instance this Court held that such restrictions would not be recognized by the patent law once the patented articles had passed by sale into the channels of trade.

Thus, in *Adams v. Burke*, 84 U. S. (17 Wall.) 453 (1873), it was held that one who purchased a patented article in the restricted territory of his vendor, acquired the unrestricted right to use it anywhere. This Court there held (p. 456):

“But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts



with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly."

In *Hobbie v. Jennison*, 149 U. S. 355 (1893), it was held that a patent assignee for one territory was not an infringer when he sold to a person who, *to his knowledge*, intended to use the patented articles so purchased, in the territory of another assignee. The plaintiff in the *Hobbie* case sought to escape the implications of the decision in *Adams v. Burke* by asserting that in the *Adams* case the vendor of the patented device was *unaware* of the allegedly unauthorized use to which the purchaser put the article, but this Court, after stating that there was *full knowledge* by all parties in both cases, held (p. 363):

"But we are of opinion that the case of *Adams v. Burke* cannot be so limited; \* \* \* and that neither the actual use of the pipes in Connecticut, *or a knowledge on the part of the defendant that they were intended to be used there*, can make him liable."

The question then arose in *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659 (1895), whether a *dealer* could be restrained from selling patented articles in his store in Massachusetts, having purchased them from the Michigan assignee with *knowledge* that the right to make, use and sell them for Massachusetts belonged to another. This Court refused to hold the dealer as an infringer, stating, in effect, that a free citizen may buy anywhere, and, being the owner of what he buys, may sell it anywhere. Reviewing *Adams v. Burke* and *Hobbie v. Jennison*, this Court held (pp. 666-667):

"Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture *from one authorized to sell them* becomes possessed of an absolute property in such articles, unrestricted in time or place. \* \* \*



The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. *The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*"

### 3. *Attempted Restrictions on Resale Prices and Use:*

The doctrine of the foregoing cases was restated and reapplied in *Bauer v. O'Donnell*, 229 U. S. 1 (1913); *Straus v. Victor Talking Machine Co.*, 243 U. S. 490 (1917); *Boston Store v. American Graphophone Co.*, 246 U. S. 8 (1918), and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502 (1917), of which cases the three first named were concerned with the efficacy of attempted *resale price* restrictions, and the fourth with attempted limitations on *use*. In each of these cases (considered more fully in Point II of this brief), the patent owner sought to accomplish, by the device of "license notice" attached to patented articles upon their sale, what this Court had expressly refused to sanction in the earlier decisions we have just reviewed. Here, too, this Court, on the same principle which there governed its decisions, invalidated the device as an attempt to project the patent monopoly beyond its rightful scope.

Thus, in passing upon attempted restrictions as to *resale prices* in *Bauer v. O'Donnell*, 229 U. S. 1, this Court held (p. 17):

"The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act."

Some years later, in *Boston Store of Chicago v. American Graphophone Co.*, 246 U. S. 8, this Court summarized its holdings in *Bauer v. O'Donnell* in words strikingly apposite now, saying (p. 23):

"In other words, the decision was that a patentee could not use and exhaust the right to sell, as to which a monopoly was given him by the patent law, and yet by conditions and stipulations continue that law in effect so as to make it govern things which by his voluntary act were beyond its scope. And . . . as a result, where an article has been sold and passed beyond the monopoly given by the patent law, remedies on the theory of infringement were not applicable to acts done which could not have that character . . . ."

In the same case, speaking in the broadest terms of the rejection of attempted use restrictions in the *Motion Picture Patents* case, 243 U. S. 502, this Court continued (p. 25):

"Reiterating the ruling in the two last cases, (referring to *Bauer v. O'Donnell* and *Straus v. Victor Talking Machine Co.*) it was again decided that, as by virtue of the patent law, one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use, keep under the patent monopoly a subject to which the monopoly no longer applied." (Matter in parenthesis ours.)

Finally, in *United States v. General Electric Company*, 272 U. S. 476 (1926), this Court, considering the rule as settled doctrine, said (at p. 489):

"It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser

*may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."*

### *Summary.*

These decisions show a consistency in ruling which is outstanding in the respect that it has never been departed from or modified, regardless of the guise in which attempted restrictions have been presented.

The fundamental reason underlying all of the cases appears to be the simple fact that this Court recognized and gave full effect to the principle that once the patented article was sold and the price paid, the article was forever outside the monopoly of the patent, and became, like any ordinary chattel,<sup>19</sup> owned by the purchaser, to be used or done with as he saw fit, without hindrance by or under the control of the patent owner.

This common fundamental ground, rising above mere questions of form, cannot be, as respondents contend, either the particular ground that price fixing is in itself unlawful, or the particular ground that the attempt to monopolize unpatented articles is in itself unlawful. The one thing common to them is that in both, *what the patent owner sought to control lay outside of the monopoly*. The patentee's sole recourse in such event, this Court said in the *Motion Picture Patents* case,<sup>20</sup> is to the method of *special contract*, but not to the patent law which permits no restrictions on patented articles after their sale.

<sup>19</sup> *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373, citing with approval *Park & Sons v. Hartman*, 153 Fed. 24, 39 in which it was held that "a covenant which may be valid and run with land will not run with or attach itself to a mere chattel". See, to the same effect, *Taddy v. Sterious*, L. R. (1904) 1 Ch. 354, 358; and *Barker v. Stickney* (1919), 1 K. B. 121, 132.

<sup>20</sup> 243 U. S. 502, 509.

Therefore, for each and every one of the reasons so clearly stated in the foregoing decisions of this Court, the attempted restriction in the present case should be as emphatically rejected and invalidated, and the decision of the Second Circuit Court of Appeals reversed, and the cause remanded to the District Court with instructions to dismiss the bill.

## POINT II.

A patent owner, merely by a "License Notice" attached to a device made under the patent and sold in the ordinary channels of trade, cannot, by means of the patent, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device.

### A. Application of the Rule to "License Notice" cases.

When this Court, in its decisions from *Bloomer v. McQuewan*, 14 How. 539 to *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, repeatedly construed the exercise of the right to vend under the patent law as granting to purchasers of patented articles full title thereto, free from any restrictive conditions under that law, patent owners renewed their efforts to fasten control on patented articles after their sale, by the device of attaching "License Notices" to those articles, or by restrictive agreements with the purchasers. However, that method was also held to be illegal, for this Court with unfailing regularity brushed aside "the guise of license or otherwise" (*Boston Store v. American Graphophone Co.*, 246 U. S. 8, 24) and refused to hold such purchasers as infringers.



Some time before the "license notice" issue was presented to this Court in patent cases, it had decided against the practice in the closely analogous copyright cases of *Bobbs-Merrill v. Straus*, 210 U. S. 339 and *Scribners v. Straus*, 210 U. S. 352, in which resale price restrictions by "notice" on copyright books, after their sale, were held void. The use of such "license notices" on sold patented articles was termed "dangerous doctrine" by a former Assistant Commissioner of Patents,<sup>21</sup> who warned against such practice, and referred to its occasional support in the lower Federal Courts before 1912. When the question did come before this Court the entire system of "license notice" restrictions sought to be attached to patented articles upon their sale, was finally repudiated in its entirety.

1. *Attempted "License Notice" Restrictions on Resale Prices.*

(a) In *Bauer v. O'Donnell*, 229 U. S. 1, the first of the series of patent cases in which the issue was raised, a retail drug store proprietor was sued for patent infringement for having disregarded a notice on original Sanatogen packages he purchased, purporting to license their "sale or use at a price not less than one dollar". The notice also recited the purchase as constituting an acceptance of the condition, with right of reverter in the event of violation.

The case came on certificate from the Court of Appeals of the District of Columbia and "the question presented restricted the case to determining whether the right to limit the price existed because within the monopoly granted by the patent law" (*Boston Store v. American Graphophone*, 246 U. S. 8, 22-23, interpreting the *Bauer* decision).

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<sup>21</sup> Walter H. Chamberlain in 6 Illinois Law Review 357 (January, 1912).

In deciding that no right under the patent law was involved, and that the purchaser was free to use the patented article at will, Mr. Justice Day, writing for this Court, said in the *Bauer* case (p. 13):

"The sale of a patented article is not essentially different from the sale of a book. In each case to vend is to part with the thing for a consideration."

In reaching the conclusion that once the right to vend, conferred by the patent law, has been exercised, "the added restriction is beyond the protection and purpose of the act" (229 U. S. 1, 17), this Court expressly predicated its decision, *inter alia*, on *Bloomer v. McQuewan*,<sup>22</sup> *Adams v. Burke*,<sup>23</sup> and *Keeler v. Standard Folding Bed Co.*,<sup>24</sup> thus bringing its decision precisely in line with the doctrine *fundamental* to all those cases, that once title to a patented article has passed to a purchaser, and the right to vend thus exhausted with respect thereto, the article has passed "beyond the limits of the monopoly secured by the patent act" (*Bauer v. O'Donnell*, 229 U. S. 1, 17).

(b) In *Straus v. Victor Talking Machine Co.*, 243 U. S. 490, this Court was next called upon to decide the legal effect of a "License Notice" affixed to a patented machine. The Victor Company manufactured phonographs and distributed them under "license contracts", reserving title to the machine until the expiration of its patents and compliance with certain conditions appearing on a "License Notice". This license authorized dealers to convey a license to use the machine upon a minimum payment of \$200. The defendant bought a quantity of the machines at less than the fixed price stated in the "License Notice". The Victor Company

<sup>22</sup> 14 How. 539.

<sup>23</sup> 84 U. S. (17 Wall.) 453.

<sup>24</sup> 157 U. S. 659.

sought to enjoin this alleged infringement by preventing the defendant from selling them, presumably at lower prices.

This Court, in dismissing the bill for infringement, held the "Notice" invalid, and the full purport of its holding was later summarized in the following language in *Boston Store of Chicago v. American Graphophone Co.*, 246 U. S. 8, 24:

"Basing its action upon the substance of things, and disregarding mere forms of expression as to license, etc., the court held that the contract was obviously in substance like the one considered in the *Miles Medical Case* and not different from the one which had come under review in *Bauer v. O'Donnell*. Thus brushing away disguises resulting from forms of expression in the contract, and considering it in the light of the patent law, it was held that the attempt to regulate the future price or the future marketing of the patented article was not within the monopoly granted by the patent law, in accordance with the rule laid down in *Bauer v. O'Donnell*."

It is interesting to note that in the *Straus* case, this Court, undeceived by the patentee's use of the word "license" to cloak what was really a *sale*, found that the facts involved an attempted price restriction on patented articles "after they have passed into the possession of dealers and of the public", and thereupon held (p. 501):

"\* \* \* we conclude that it falls within the principle of *Adams v. Burke*, 17 Wall. 453, 456, and of *Bauer v. O'Donnell*, 229 U. S. 1."

*Adams v. Burke*, on the page indicated in the *Straus* opinion, holds that upon sale "the article, in the language of the Court, passes without the limit of the monopoly" ("the language of the Court" refers to *Bloomer v. McQuewan*, 14 How. 539). That, also, is the principle restated

in *Bauer v. O'Donnell*. Price limitation was no issue in *Adams v. Burke*, or *Bloomer v. McQuewan*. The only principle common to the *Adams*, *Bloomer*, *Bauer*, and *Straus* cases is that a sale, whether with or without a license notice, takes the patented article out of the patent monopoly.

(c) Thereafter, in *Boston Store of Chicago v. American Graphophone*, 246 U. S. 8, the "license notice" method which had failed of recognition in the *Bauer* and *Straus v. Victor* cases, was supplanted by written contracts between marketing agents of the patentee and purchasers of the patented articles whose resale prices were sought to be controlled thereby.

The District Court in that case conceded that a patentee

"cannot make a notice attached to the article discharge the function of a 'covenant running with the land'" (225 Fed. 785, 787)

but was misled by the contract device, and sustained the bill alleging patent infringement because of a violation of that agreement.

This Court, however, on a certificate from the Circuit Court of Appeals for the Seventh Circuit, inquiring whether "the recited facts disclose that some right or privilege granted by the patent laws has been violated" answered in the negative and dismissed the bill. After reviewing its prior decisions invalidating restrictions sought to be imposed under the patent law on patented articles after their sale, this Court held (p. 25):

"Thus concluding, it becomes, we think unnecessary to do more than say that we are of opinion that the attempt in argument to distinguish the cases by the assumption that they rested upon a mere question of the form of notice on the patented article, or the



right to contract solely by reference to such notice, is devoid of merit, since the argument disregards the *fundamental ground* upon which, as we have seen, the decided cases must rest."

That "fundamental ground" of which this Court spoke, was that the monopoly of the patent cannot (p. 26):

"be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach".

Indeed, so firmly did this Court deem that rule to be established that it expressly rejected any further attempts "judicially to correct doctrines which by reiterated decisions have become conclusively fixed" (p. 26).

## 2. Attempted "License Notice" Restrictions on Use.

The doctrines of the foregoing cases were again presented to this Court, but from a different aspect, in *Henry v. A. B. Dick Co.*, 224 U. S. 1, and *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502. In those cases renewed attempts were made by patent owners to control patented articles in the hands of purchasers, this time by "license notices" attached to the articles, purporting to restrict their use.

(a) In the *Dick* case, by a four to three decision, such a notice, requiring the patentee's unpatented supplies to be used with the patented device, was held effective and its violation construed as an infringement. That conclusion was arrived at by reasoning that if a patentee by virtue of his patent, could reserve *all* uses, he surely could restrict *some* on articles made and sold under the patent. The fallacy in that argument was, of course, that it failed

to recognize that rights with respect to all of the parts collectively, are not necessarily rights with respect to any isolated part. Therefore, though the right to make, vend or use could be reserved or granted in part, it could not follow a patented article into the hands of a *purchaser* as a restriction in the nature of "a license of the use", to quote from this Court's analysis of the *Dick* decision, in the *Boston Store* case (246 U. S. 8, 22).

(b) This entire question was re-examined, however, and the *Dick* case was expressly overruled in the *Motion Picture Patents* case. There this Court had presented to it two closely analogous questions—(1) whether a patentee who licenses the manufacture and sale of the patented device can, by a mere notice attached to the article, limit the purchaser from such licensee to films which were not part of the patented machines, and (2) whether the patentee, by a mere notice so attached, can reserve conditions to be fixed in the future.

Both questions were answered in the negative by this Court. With respect to the "License Notice", it held (p. 509):

*"The statutes relating to patents do not provide for any such notice and it can derive no aid from them."*

This Court thereupon held (p. 516):

*"\* \* \* it is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation"*.

(To the same effect, see the later cases of *Carbice Corp. v. Amer. Patents Development Corp.*, 283 U. S. 27; and *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458.)

In reaching this result, this Court held that the exclusive right to use is no greater than the exclusive right to vend a patented machine, and that its previous decision in *Bauer v. O'Donnell* had interpreted the exercise of the right to vend, as freeing the article "*of every restriction which the vendor may attempt to put upon it*" (*Motion Picture Patents* case, 243 U. S. 502, 516).

Of course, there is no distinction in principle between attempting to restrict the materials to be used by an attached "License Notice", and attempting to restrict the use of the device itself. *Both of the attempted restrictions consist of nothing more or less than attempts on the part of the patent owner to "extend the scope of its patent monopoly" in a manner neither contemplated nor permitted by the patent statutes.*

The only distinction that exists between the decisions of this Court in the *Bauer*, *Straus*, *Boston Store* and *Motion Picture Patent* cases, on the one hand, and the case at bar, is in the *character* of the restrictions sought to be effected by the "License Notice" attached to the goods sold. Because the Court of Appeals differentiates the cases in this fashion when there is and should be no distinction between them, it is necessary for this Court to clarify the situation by a decisive holding (in accord with its decisions), that no valid restriction on the use of a patented article purchased from the patentee or his licensee, and the price paid therefor, can be effected by a mere "License Notice" attached to that article.

#### **B. Extra-Judicial Comment on the extent of the Rule.**

The force and extent of the rule, as established and applied in the foregoing cases, is fully reflected in the references to it made by leading writers on the law of patents.

Thus, Professor Williston recently stated (5 Williston on Contracts, 1937, pp. 4630-31):

" \* \* \* It seems, indeed, to have been suggested by the Supreme Court of the United States, that as to patented articles there is an inherent inconsistency in selling property and imposing a restriction on the buyer (citing the *Boston Store* case). This can only mean, however, that the patent laws give no protection to restrictive promises exacted from a *buyer* and that they must stand or fall under the common law as if the article was unpatented. \* \* \* Certainly, this result cannot be achieved by mere notices on patented articles." (Citing the *Straus v. Victor, Motion Picture Patents* and *Carbice* cases.) (Matter in parenthesis ours.)

Professor Chafee, commenting on this Court's decision in those cases, also points out (41 Harvard Law Review 945, 1002):

"When the patented article is sold it appears to pass outside the scope of the patentee's monopoly in every respect. At least I find no satisfactory case to the contrary."

and, on the same page, the author states:

"In this country the vital distinction is drawn *when title to the article passes.*"

As put by this Court in *United States v. United Shoe Machinery Co.*, 247 U. S. 32, 58, a patentee "cannot grant the *title* and retain the incidents of it".

And in *Walker on Patents* (1929), Vol. I, the rule is summarized in the following language (p. 425):

"But the purchaser of a patented apparatus, from the owner of the patent thereon, acquires whatever right that patent covers, to use that apparatus in accordance therewith, even where it is capable of a



different use, and by such sale the apparatus is thereby rendered free of every restriction which the patentee may attempt to put upon it". (Citing *Straus v. Victor Talking Machine Co.*, 243 U. S. 490; *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502.)

Likewise, in 24 Ruling Case Law—Sales; Sec. 660, pp. 372-373, the rule is stated to be:

" . . . So the patentee cannot reserve a right to place future restrictions on the use of the patented article which will follow the article into the hands of subsequent purchasers and bind them. As regards the foregoing principle one licensed by the patentee to manufacture and sell the patented article is in the same position as a buyer from the patentee, so that a purchaser from such licensee takes free from agreements by the licensee with the patentee as to the use, etc., to be made of the patented article by the purchasers." (Citing the *Motion Picture Patents* case.)

From the foregoing it is believed to be apparent that the second question presented should be answered in the negative; and the attempted restriction in the present case, as well as the attempt to effect it by a mere "notice" attached to the patented article when sold, should be emphatically rejected and invalidated; and the decision of the Second Circuit Court of Appeals should be reversed and the cause remanded to the District Court with instructions to dismiss the bill.

## POINT III.

The Court of Appeals erred in treating as "obiter" and "not necessarily controlling", the doctrine of this Court that under the patent law no future control by "license notice" or otherwise can be exercised over a patented article once it has been sold.

The Court of Appeals in the case at bar "suggests" that although this Court plainly said in the *Bauer, Straus* and *Boston Store* cases that it was deciding the issues there involved *solely under the patent law*, the real reason was a policy against resale price control (Vol. III, p. 1724). It rests that suggestion on a purported quotation from the *Boston Store* opinion, which we have been unable to find. However, what this Court did say there was that the particular contract "disclosed in the certificate" in the *Boston Store* case (246 U. S. 8, 25), was *also* void under the general law as in restraint of trade (*Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373), and that it was incapable of being made good by resort to the patent law "under the guise of a patent infringement".

To be sure, public policy at common law prohibits resale price restrictions on chattels sold in the ordinary course of trade. It does not follow, however, when such restrictions are sought to be enforced in the form of an infringement suit, simply because the articles were made and sold under a patent, that the *only* reason they are held void is because of public policy. They are held bad under the *patent law* for the simple reason that *no* restrictions on patented articles, intended to be effective after their sale, have ever been recognized by this Court (except in the *Dick* case,

which was overruled by the *Motion Picture Patents* decision). *A fortiori*, restrictions inherently invalid under the general law, will surely find no protection under the patent statute on any theory.

The vice in the holding of the Court of Appeals below becomes ever more apparent when it is recalled that where the free movement of chattels in the hands of purchasers in the ordinary channels of commerce is not involved, price restrictions have always been held *good* under the patent law. Thus, in cases involving *simple licenses* to make, use or vend, where the mutual rights of patentee and licensee are considered, as distinguished from transactions constituting *sales* of patented articles, the patent law permits the imposition of all manner of restrictions not in themselves illegal or violative of some special statute (*United States v. United Shoe Machinery Co.*, 258 U. S. 451; *Patterson v. Kentucky*, 97 U. S. 501). This Court has, therefore, recognized price and other restrictions *as between a patentee and his licensee*, where the license was a true one, and not a subterfuge for a sale (*Bement v. National Harrow Co.*, 186 U. S. 70; *United States v. United Shoe Machinery Co.*, 247 U. S. 32; *United States v. General Electric Co.*, 272 U. S. 476).

Hence, in the *Bement* case, price fixing restrictions were held valid in a contract between a patentee and its manufacturing licensee, even against the Sherman Act, a rule of decision followed in the first *Shoe Machinery* case (247 U. S. 32).

In the *General Electric* case, this Court, distinguishing between *agencies to sell* and actual *sales* of patented articles, held that agreements by the *General Electric Co.* with its licensee as to the prices at which the latter shall sell articles it makes, are valid. In other words, if a patentee

grants a *license* to make and sell, he may require the licensee to "limit the selling by limiting the method of sale and the price" (272 U. S. 476, 490). However, he can place no such restriction upon one who has *purchased* the patented article from the licensee. Thus, this Court held in that case (p. 485):

"As long as he (the patent owner) makes no effort to fasten upon ownership of the articles he *sells* control of the prices at which his purchaser shall sell, it makes no difference how widespread his monopoly." (Matter in parenthesis ours.)

To summarize, it is obvious, then, that when this Court in *Bauer v. O'Donnell*, 229 U. S. 1, held resale price restrictions invalid on patented articles which had been sold, it was simply because *the patent law* permits no restrictions on patented articles after their sale. If public policy were the test, then the price fixing restrictions upheld in the *Bement* and *General Electric* cases (*supra*) should have been invalidated. Such restrictions were held good, however, in those cases simply because this Court there had to deal solely with the enforceability of *license agreements* as distinguished from *sales*. Recently, in *Old Dearborn Distributing Co. v. Seagram Distillers Corporation*, 299 U. S. 183, in upholding the Illinois Fair Trade Practice Law, this Court again stated that in the *Boston Store* and *Bauer* cases it had invalidated attempted restrictions on patented articles that had passed by sale into the ordinary channels of trade simply because the patent law afforded no basis for upholding any such restrictions, and that resort must be had to an amendment of the law to accomplish any such purpose.

So, also, the Court of Appeals below erred in holding that public policy alone moved this Court to declare invalid



the "license notice" restrictions in the *Motion Picture Patents* case, 243 U. S. 502. Public interest was indeed one of the *two* reasons stated, but the other was that the purported restriction was "plainly void, because wholly without the scope and purpose of our patent laws" (p. 519).

#### POINT IV.

**Respondents' contentions as to the "scope" of the license of their vending licensee are without legal support.**

Respondents asserted in the Courts below, and the Court of Appeals agreed, that the sales of the patented amplifiers to petitioner, though by one licensed to make and sell, were beyond the "scope" of the license and therefore an infringement of the patent just as though a license had never existed. It requires but little discussion to establish the want of merit in this contention.

In the first place the fact that the licensee undeniedly had the right to sell is a complete answer. If the licensee, in exercising his right to sell, is claimed to have breached some express covenant in his license agreement, the remedy—and the only remedy—of the licensor lay in a *suit against the licensee because of the breach*. No cause of action—and certainly not one under the patent law—would lie against the purchaser. This was expressly held in *Hawley v. Mitchell*, 1 Holmes 42, (affirmed by this Court in *Mitchell v. Hawley*, 16 Wall. 544). There the Circuit Court, in passing upon a license to make and use, said (p. 44):

"He (the licensee, Bayley) never acquired the right to sell a single machine \* \* \*. Had he \* \* \* possessed the power to sell the patented machines, the pur-

chaser would have acquired a title which would have been outside of the monopoly, and would have acquired the absolute right to use the machines during the extended term; *and this notwithstanding any covenants Bayley might have made not to convey such a title.* Under such circumstances, the patentee must have sought his remedy against Bayley on his covenants." (Matter in parenthesis ours.)

and, on the same page, the Court similarly pointed out that:

"Nothing can be more evident than the purpose expressed in this instrument, to put it out of the *power* of Bayley to give any title to the machines. The very act of sale was a violation of the contract and an act of infringement." (Italics by the Court.)

Nor is respondents' contention strengthened by the attachment of the "license notice" to the amplifiers sold by their licensee, as has been established by the prior decisions of this Court hereinabove discussed. Restrictions sought to be imposed by a "license notice" attached to the article when sold, have been emphatically rejected and decisively invalidated as an unwarranted attempt to extend the monopoly of the patent to articles made and sold thereunder that have passed beyond its reach into the hands of purchasers. Surely, it cannot be seriously or successfully urged that what the patentee himself cannot do, he can nevertheless accomplish through the medium of a licensee empowered to make and sell the article with such "license notice" attached.

At common law the passage of *title* to chattels in the ordinary channels of trade is generally held to be incompatible with continued control over them by the seller (*Taddy v. Sterious L. R.* (1904) 1 Ch. 354, 358). The rule is not different because the manufacturer of the article

chose to sell it through an agent or jobber with instructions to attach, by label or notice, limitations on its use or resale (*Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373). In the *Dr. Miles* case, this Court held (p. 408):

"It is an article of commerce and the rules concerning the freedom of trade must be held to apply to it."

Nor is it of any legal consequence what the manufacturing licensee in this case believed or knew of the uses to which petitioner might put the amplifiers it purchased. If, under the patent law, license notice restrictions are invalid as against purchasers of patented articles, as repeatedly held by this Court, then surely knowledge that the articles were to be used for the purposes allegedly reserved by the notice or outside of the alleged scope of the right of the seller, would not make any difference, and this Court has *expressly* so held (*Hobbie v. Jennison*, 149 U. S. 355).

Moreover, as would be expected, respondents' contention that the sales of the patented articles by the licensed manufacturer were beyond the alleged scope of the license to make and sell because they were used in a field other than as specified in the license agreement and by the "license notice", is the same contention that was unsuccessfully made by the patent owner, so far as we have observed, in every case cited in this brief where sales of patented articles were made by one vested with a power of sale.

Indeed, it is quite obvious that the question involving the legality of attempted restrictions on a patented article after it has been sold, could not have arisen under the charge of infringement unless the defendant in each of those cases had, according to the patent owner's argument, at least, stood in the shoes of an infringer who was not vested with the immunity from suit incident to a license.

Thus, in *Adams v. Burke*, 84 U. S. (17 Wall.) 453, Burke *knew* of his vendor's restricted right to sell and use and yet received by purchase the right to use the patented article beyond the territorial limits of his vendor. Indeed, the dissenting Justices in that case stood precisely on the argument here made by respondents, when they stated (pp. 458-459, 460):

"If it be contended that the right of vending the lids to others enables them to confer upon their vendees the right to use the lids thus sold outside of the limited district, the question at once arises, how can they confer upon their vendees a right which they cannot exercise themselves? \* \* \* In my judgment it was limited in locality, both as to manufacture and use, and that he could not convey to another what he did not have himself."

In *Hobbie v. Jennison*, 149 U. S. 355, the territorial assignee of a patent right *deliberately* sold the patented article made thereunder, for use in the territory of another assignee, so that the purchaser received that which the vendor did not himself possess. Yet, this Court there expressly held (p. 363):

*"neither the actual use of the pipes in Connecticut, or a knowledge on the part of the defendant that they were intended to be used there, can make him liable."*

And, in *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, there was established the right of the purchaser to sell outside of his vendor's territory even though the vendor could not do so himself.

Similarly, the same contentions were made with respect to attempted restrictions as to resale price (*e. g.*, *Straus v. Victor*, 243 U. S. 490) where the resale price was specified by the license, and sales were made of the patented device at prices less than those specified. The sales were charged



to constitute "infringement" of the patent and the seller was charged to be an infringer as though no license ever existed.

Finally, in the *Motion Picture Patents* case, 243 U. S. 502, closely analogous to the present situation both as to subject matter and facts, where, too, the licensee to manufacture and sell was required to affix "license notices" to the machines it sold purporting to limit their use in the hands of purchasers, this Court held that the purchaser took free of the attempted restrictions and was not an infringer. It thereby disposed of the contention here made that the purchase was not a *licensed* act, or that the terms of the license had been exceeded by an allegedly unauthorized sale. In pointing out that the patent law has no application to cases of that character this Court further held (p. 509):

"The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question *outside the patent law* and with it we are not here concerned (*Keeler v. Standard Folding Bed Co.*, 157 U. S. 659)."

In the end, therefore, it nevertheless remains true that though a *licensee* may be restricted to use the invention of an article in a special field, or for a particular purpose (*Rubber Co. v. Goodyear*, 9 Wall. 788),—*once sold*, either by the patentee or by a licensee to make and sell, that same article can be used for any purpose (*Washing Machine Co. v. Earle*, 29 Fed. Cases No. 17219; p. 332).

In the last cited case the Circuit Court held (p. 334):

"Any covenant between them and him (patentee and licensee) that they will not manufacture certain articles, may be valid as between the parties, but it does not run with the rubber, like a covenant on land.

• • • *If his licensees do not perform their agreements, his remedy is by action against them on his covenants, and not by recourse to a chancellor to restrain third persons who have purchased vulcanized rubber from his licensees from using it, when it is theirs, for any purpose they please.*" (Matter in parenthesis ours.)

In conclusion on this subject, it should be noted that plaintiff's contentions are predicated upon the theory that inasmuch as one who owns a patent may keep his invention entirely out of use (*Paper Bag* case), he is empowered to exact any terms that he may elect as a condition to permitting his invention to be put to use. Therefore, respondents argue, there being nothing inherently illegal in restricting the use to which the patented device may be put, such a restriction may be validly attached to the patented device at the time of its sale, which restriction applies to the patented device after its sale and throughout its life. The utter fallacy of this contention (which was the basis of the decision in the *Dick* case, and apparently forms the basis of the outstanding majority opinion of the Court in the case at bar) is that there is a vast legal distinction between a *condition to a sale* and a condition attaching to the device itself *enforceable after its sale* in the hands of a purchaser. To put it tersely, such a control over a chattel is an incident to title thereto, and *no patent owner or licensee can part with title and retain the incidents thereto*. This was expressly held by this Court, in the face of such a contention, in *United States v. United Shoe Machinery Co.*, 247 U. S. 32, where at page 58 this Court said:

"Indeed, we said in the *Paper Bag Patent Case*, that he (the patentee) may keep his invention out of use. Therefore, he necessarily has the power of granting it to some and withholding it from others, a right of

selection of persons and terms. *There is, however, a limitation upon him; he cannot grant the title and retain the incidents of it; Straus v. Victor Talking Machine Co.*, 243 U. S. 490; *Bauer v. O'Donnell*, 229 U. S. 1; *Motion Picture Patents Co. v. Universal Film Co. supra*.

These cases have received review and application in *Boston Store of Chicago v. American Graphophone Co.*, 246 U. S. 8. The principle of them was expressed to be that *where an article has been sold it passes beyond the monopoly given by the patent and conditions cannot be imposed upon it.*" (Matter in parenthesis ours.)

## POINT V.

**This Court's prior decision in the present case was erroneous.**

In reaching its prior decision in this case (304 U. S. 175) this Court puts its opinion squarely on respondents' foregoing proposition that the sales by the licensee were outside of the *scope* of the license, and an infringement because the licensee and petitioner *knew* that the use to which the amplifiers were to be put was not one of the permitted uses specified in the license. This Court did not pass on the restricted use "notice" that the licensee, in accordance with its contract with the patentee, had affixed to the amplifiers before they passed into the hands of the petitioner as purchaser.<sup>25</sup>

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<sup>25</sup> Had the majority opinion considered the "license notices" it would have been met with the Court's own holding in the *Motion Picture Patents* case (243 U. S. 502, 509), where, in referring to the issues "arising with increasing frequency \* \* \*" as to whether a patentee by notice can prescribe "the conditions of its use", on the sale of a patented article, this Court said:

"The statutes relating to patents do not provide for any such notice and it can derive no aid from them."

It is submitted that this conclusion is erroneous on principle, wholly unsupported by authority, and, indeed, contrary to the clear import of the many prior decisions of this Court hereinbefore referred to, all of which were apparently overlooked by the Court in reaching its stated conclusion.

As we have already pointed out (*ante*, pp. 32-38) it is legally immaterial *what* the scope of a license under a patent may be, for if the licensee is empowered to *sell*, the *purchaser* takes the patented article free of any restriction whatsoever *insofar as the patent is concerned*. And this is true even though one or more of such restrictions can be properly asserted by the patent owner—as breach of contract, for example—against the licensee. Obviously therefore, and under all of the prior decisions of this Court, if a licensee is empowered by the patent owner to *sell* the patented device, a purchaser acquires the patented device free of any obligations—contractual or otherwise—that may exist between the patent owner and the licensee. Moreover—and this is the controlling factor insofar as the present case is concerned—the purchaser acquires the patented device free forever from attack *by the patent*, and unrestricted as to what he may do with the device, the absolute, unconditional title to which is vested in him. The licensee *cannot* make a sale with the condition attached that the article shall be used or disposed of in a certain manner, *leaving the title in the purchaser in case of a breach of the condition*. Such a conditional sale would be an innovation in our system of jurisprudence, and if it should be permissible, sales of personal property could be disregarded by patentees on the plea that the patent monopoly secured to them a continued monopoly over the patented article, in spite of the general rules of law applying to the transfer of personalty.



This at once makes apparent the fallacy of the reasoning of the majority opinion of the Court that if the *sale* by the licensee was for a use *other* than that specified in the license contract, *then* the sale becomes an infringement. In reaching that conclusion this Court completely lost sight of the fact that under its reasoning it is *no act of the licensee* which does or could determine whether the sale is a legal one, *i. e.* within the license—or an illegal one, *i. e.* an infringement. In other words, *the licensee is expressly empowered to sell*. That is not questioned. And, whether or not the sale is *within* or *without* the license is determined, under the Court's reasoning, not by anything transpiring as part of the sale, *but solely by what the purchaser ultimately does with the device*. It is the *use* to which the device is ultimately put that alone determines, under the majority opinion, whether the sale was a proper one within the license or an infringing one outside of the license.

The license contract imposed no obligation on American Transformer Company to ascertain for what purpose amplifiers were bought from it. The only obligation the licensee assumed was to attach the "notice" to the amplifiers it sold. Thus, one purchasing an amplifier might make no statement as to the use to which the amplifier it bought would be put. The legality and propriety of a sale made under such circumstances cannot be questioned. If the amplifier so purchased was used for radio broadcast reception, according to respondents and the majority opinion, that was a *licensed* sale. If, however, it was used in connection with talking motion picture equipment, under the majority opinion it at once became an infringement. Similarly, if the foregoing purchaser of the amplifier, after using it for the restricted *licensed* use, thereafter sold it to another who used it for an *unlicensed* purpose, the apparatus in the

hands of the subsequent purchaser would be an infringement, whereas the identical apparatus while in the hands of the original purchaser would not.

This absurd result illustrates quite fittingly our statement that no action of the American Transformer Company, which was licensed to *sell*, would determine whether or not infringement occurred. In every instance it would be determined solely by the *use* to which the patented device was put by the purchasers, or subsequent owners, regardless of in whose hands it is found or through how many hands has passed.

Apparently, in reaching the conclusion expressed in its majority opinion, this Court was concerned with and apparently controlled by the question of whether or not the licensee and the purchaser had *knowledge* of the restriction on use of the amplifiers, as well as of an *intention* to violate that restriction. The Court apparently lost sight of the fact that where there is a *sale* of a patented article, *by a licensee empowered to make a sale*, the patented device so sold is forever free of the patent, and that neither knowledge of nor alleged intent to breach restrictive covenants *between the patent owner and its licensee* is in any respect material to the question of whether or not the patented device *in the hands of the purchaser* constitutes an *infringement of the patents* under which it was manufactured and sold—and this is precisely what this Court has repeatedly held in cases involving that identical question.

Knowledge of some purported restriction, either expressed in the form of a "notice" or implied in the limited grant to an assignee or licensee, necessarily appears in *every* case that ever came before this Court where a patentee sought to enforce a restriction against the *purchaser* of the patented article. Yet, in none of them did the

patentee prevail. Indeed, in one instance the purchaser *actually agreed in writing* with the dealer-licensee to comply with the restriction sought to be imposed on the patented article, but was held by this Court to be free of the covenant, *under the patent law* (*Boston Store v. American Graphophone Co.*, 246 U. S. 8). And in another instance (*Hobbie v. Jennison*, 149 U. S. 355) *knowledge* by the licensed seller of the intention to use the patented article for purposes outside of the scope of the seller's right under the patent grant was held to be equally irrelevant (see *ante*, pp. 34-36).

However, as a matter of fact, this Court was in error in assuming, in its prior majority opinion, that the Transformer Company and petitioner knew the sales made were outside of the scope of the license, and hence were illegal, "unlicensed" sales. The record is quite to the contrary. The evidence is that both parties acted on advice of counsel, and in the honest belief that the Transformer Company had the right to make these sales and the petitioner to make the purchases (Vol. I, pp. 367-370, particularly fols. 1108, 1109; p. 341, fols. 1021-1022, referring to the letter exhibits in Vol. III, pp. 1563-1567).

The effect of the majority opinion is therefore to brand as a knowing infringement and a tortious act,—for infringement is a tort<sup>26</sup>,—mere reliance on what this Court has held and repeated in decision after decision in the broadest possible terms. The Transformer Company which sold the amplifiers to petitioner, with "license notice" restrictions attached, in exact compliance with its license agreement and after notification to petitioner that that is "the only way in which we can sell them",<sup>27</sup> is held to infringe respondents' patents, because it *knew* petitioner intended to disregard conditions *which this Court had heretofore held*

<sup>26</sup> *The Carbice* case, 283 U. S. 27, 33.

<sup>27</sup> Vol. II, p. 732, fol. 2195.

not binding on purchasers of patented articles. And petitioner, likewise, is said to have infringed because it, too, knew that the licensee knew of petitioner's use of the amplifiers,—a use in strict accordance with counsel's advice that the attempted limitations on such use were illegal under the decisions of this Court. And it should be noted that counsel's advice was in strict conformity with the universal interpretation of this Court's decisions, as published by such authorities as Williston, Chafée, Walker on Patents, and Ruling Case Law (see *ante*, pp. 26-28), and as recorded in the decisions of other courts.<sup>28</sup> Petitioner cannot conceive on what principles of law or equity its conduct, under such circumstances, would constitute deliberate infringement.

The sole question here can be nothing more than the validity of the attempted restriction (see *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373, 395). If it is invalid it becomes utterly irrelevant to consider what the Transformer Company or the petitioner knew or intended to do about it. As Judge HUGH put it at the trial of the *Motion Picture Patents* case (U. S. Supreme Court Record pp. 54-55) 243 U. S. 502:

" \* \* \* I apprehend that the question here is whether the Prague Amusement Co. could not do exactly what it is accused of having done, no matter how many conversations it had with the Patent Co., or any of its affiliated concerns. \* \* \* The question is, was it lawful. That is the whole point."

<sup>28</sup> See *Chicago Daily News v. Kohler*, 196 N. E. (Ill.) 445, where the Court said (pp. 449-450):

"Federal decisions denying the right of patent owners, in selling patented articles, to reserve control over the resale or use, do not rest upon any mere question of the form of notice attached to the articles, or the right to control, solely by reference to such notice, but upon the basic ground that the control of the patent owner over the articles in question ends with the passing of title." (Citing the *Bauer*, *Keeler* and *Boston Store* cases.)



If, as follows from this Court's majority opinion, a patentee, by restrictive license to a manufacturing licensee, and a restrictive "notice" attached to the article when sold, may exercise a control over the use to which that article may be put throughout its life, and regardless of in whose hands it may be found, it requires but brief consideration to see the absurd extremes to which patent owners may hereafter go under such a revolutionary and oppressive doctrine. And it requires but little reflection to see at once "the inconvenience and annoyance to the public" that would result, as stated by this Court in *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, 667. For example, every patented commodity in everyday use could be "restricted" by the patent owner to particular uses. Fountain pens could be restricted to signing letters; household refrigerators to preserving only specified food-stuffs; automobiles to transporting adults; and other illustrations suggest themselves without limit.

- To use any of these commodities for any *other* purpose or
- in any *other* manner would necessitate the purchase of another such commodity expressly licensed for use in that *particular* manner or for that *particular* purpose. Such a result, so absurd on analysis, inevitably flows from the doctrine of this Court's prior decision, in the present case.

It is difficult to conceive of a more drastically oppressive doctrine. And when it is remembered that many, if not most, of the devices used in everyday life—and now regarded as necessities thereto—are patented devices, it will at once be seen that by no more effective means could the public rights be completely surrendered to the patent pool monopolists. Indeed, so appalling are the obvious effects of such a doctrine that even the most fanatic monopolists have not had the temerity to suggest legislation to that effect—and this Court, as above pointed out, has repeatedly

held heretofore that the existing statutes do not permit it. The result is; therefore, that this Court by its prior decision in this case has inadvertently established a doctrine which is not supported by statute, authority, or principle.

What difference in principle is there or can there be between a patentee's attempt to restrict the place of use, the time of use, the materials used therewith, and the resale price of a patented device, on the one hand, and the manner or purpose of use, on the other? This Court has persistently and for nearly a century insistently invalidated all of the first stated restrictions for the reiterated reason that when the device made under the patent is in the hands of a purchaser that device is forever freed from the patent and entirely outside of the patent law. Yet the majority opinion of this Court, without reference to its long line of unbroken decisions on the subject, and without statement or explanation of how there is or can be any distinction between the present case and its prior decisions, sanctions the restrictions on *purpose* or *manner* of use sought to be imposed by respondents in the present case. It is impossible for us to believe that this was the Court's intention, although it is undeniably the result of the outstanding opinion. It is our belief that due to our failure or inability clearly to make and define the issue, this Court, in arriving at the conclusion announced in its majority opinion, failed to comprehend the seriousness and want of justification for the situation which has been created.

In addition, in its majority opinion this Court made error on which its conclusion was based, in part at least, in asserting that petitioner in the present case was

"not a purchaser in the ordinary channels of trade."

To point out the error it is merely necessary to refer to this Court's prior decision in *Dr. Miles Medical Co. v. Park &*

*Sons*, 220 U. S. 373, 408, as authority for the proposition that *any article sold* becomes

"an article of commerce and the rules concerning the freedom of trade must be held to apply to it."<sup>29</sup>

Likewise, in two portions of this Court's prior majority opinion in this case it is stated that the amplifiers were not licensed to be sold for any *commercial* use. That is incorrect. An inspection of the license agreement will demonstrate that the purported licensed uses cover the field of "radio broadcast reception", unlimited by express definition to any private or "home" field. (Vol. III, p. 1416, fol. 4248.) Petitioner mentions this because the opinion states, as respondents urged in their brief at the prior hearing, though without support from the record, that respondents reserved the *commercial* field to themselves. What they really sought to do was to license the use of the amplifiers in amateur, experimental and in *certain* commercial fields, and to divide off and reserve *other* commercial fields to themselves and their associates under the radio patent pool agreements (Vol. III, pp. 1305-1413).

Finally, it is believed that it will be apparent to the Court that it fell into the error of its prior majority

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<sup>29</sup> See also *Coca Cola Co. v. The State*, 225 S. W. 791, 793, where the Court said, of the status of a patented article after its sale:

"Having parted with his ownership therein, it enters the channels of trade as an article of commerce, and is thereafter beyond his (the patentee's) control". (Matter in parenthesis ours.)

In *State of Missouri ex rel. B. & O. Tel. Co. v. Bell Tel. Co.*, 23 Fed. 539, 540; appeal dismissed 127 U. S. 780; the Court said:

"There is no peculiar sanctity hovering over or attaching to the ownership of a patent. It is simply a property right to be protected as such. Starting from that as a basis, while every property owner may determine for himself to what he will devote his property, yet the moment he puts that property into \* \* \* the channels of commerce, that moment he subjects that property to the laws which control commercial transactions \* \* \*"

opinion because it overlooked the legal distinction that exists in the relation between *patentee and licensee*, on the one hand, and between *patentee or licensee and a purchaser*, on the other. Where the *first* relationship exists, broad reservations of rights to patentees have been permitted, and are not here questioned. Where the *second* relationship exists, *no reservation by the patentee of any kind or nature whatsoever has ever been permitted*. The exercise of rights permitted to patentees in relation to their licensees rests upon principles utterly apart from those applied by this Court in cases involving the rights of *purchasers* of patented articles. Patentees went to great pains in cases like *United States v. General Electric Co.*, 272 U. S. 476, *Bement v. National Harrow Co.*, 186 U. S. 70, *United States v. United Shoe Machinery Co.*, 247 U. S. 32, to convince this Court that they were not violators of the anti-trust laws because, they argued, the transactions attacked were not *sales* of patented articles, but merely *license* or *agency* agreements which the patent monopoly protected so long as *purchasers* of the patented articles were not involved. This Court agreed with them, though in the *Shoe Machinery* case, the Government made a determined but unsuccessful effort to have the Court hold the leases of machinery to be sales, and because thereof, outside the scope of the patent laws. But never, until the decision of the case at bar (except in the expressly overruled *Dick* case and the cases predicated on the principle there stated), did this or any other Federal Court hold a *purchaser* of a patented article from a patentee or one empowered to sell, to be an infringer for disobeying, *intentionally or otherwise*, restrictive conditions sought to be annexed to the subsequent use or disposition of the article in the hands of the buyer.



It is therefore respectfully submitted and urged that this Court, on being made cognizant of the foregoing impelling and controlling factors which were undoubtedly overlooked in formulating its prior decision, and on realizing the unintended, radical and far reaching effect as well as the untenable character thereof, should overrule its prior decision, and bring its conclusions in the present case in harmony with the law that has been established and followed by this Court for nearly a century.

### Conclusion.

In conclusion it is submitted:

1. Petitioner, by its use of amplifiers purchased from a licensee of respondents, licensed to make and sell the amplifiers, did not and could not infringe the patents under which, concededly, the amplifiers were manufactured and sold. Therefore, petitioner is not guilty of infringement as charged in the bill of complaint.
2. The "license notice" attached to the amplifiers sold to petitioner purporting to restrict the use to which the amplifiers might be put, was neither valid nor enforceable; and petitioner's use of the amplifiers outside of the restriction specified in the said "license notice" did not, as a matter of law, make such use an infringement of the patents in suit.

In consequence, the prior majority opinion of this Court in this case was in error and should be corrected. Likewise, the decision of the Court of Appeals below was in error, and, upon the foregoing grounds, that Court should be

reversed and the cause remanded to the District Court for the Southern District of New York with instructions to dismiss the bill of complaint.

Respectfully submitted,

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